FACT SHEET

Disclosure of Order Execution Information

The Securities and Exchange Commission proposed amendments to update the disclosure required under Rule 605 of Regulation NMS for order executions in national market system stocks, which are stocks listed on a national securities exchange. Specifically, the proposed amendments would:

- Expand the scope of entities subject to Rule 605 by requiring broker-dealers with a larger number of customer accounts, single dealer platforms, and entities that would operate qualified auctions being proposed separately in an order competition rule to make available to the public monthly execution quality reports;
- Amend the definition of "covered order" to include certain orders submitted outside of regular trading hours and certain orders submitted with stop prices;
- Amend the categorization of information required to be reported under the rule, including changing the order type categories and the order size categories to include fractional share orders, odd-lot orders, and larger-sized orders;
- Eliminate time-to-execution categories in favor of average time to execution, median time to execution, and 99th percentile time to execution statistics, each as measured in increments of a millisecond or finer;
- Amend the information required to be reported under the rule, including changing the realized spread statistics to 15 second and one minute realized spread and requiring new statistical measures of execution quality that could be used to evaluate price improvement and size improvement for all order types, additional price improvement statistics for market and marketable order types, and certain statistical measures that could be used to measure execution quality of non-marketable limit orders; and
- Enhance the accessibility of the required reports by requiring all entities subject to Rule 605 to make a summary report available.

Why This Matters

Rule 605 was adopted more than two decades ago to help the public compare and evaluate execution quality among different market centers. Although Rule 605 has provided visibility into execution quality at different market centers, the content of the disclosures required by Rule 605 has not been substantively updated since it was adopted. The speed and nature of trading have changed dramatically. Further, variations in execution quality across broker-dealers may be difficult to assess using current Rule 605 reports and the order routing reports required under Rule 606 of Regulation NMS. Modernized and enhanced execution quality reporting would better help the public compare and evaluate execution quality among different market centers and broker-dealers and thereby increase transparency of order execution quality, increase the information available to investors, and help promote competition among market centers and broker-dealers.

How This Rule Would Apply

The proposed amendments would expand the scope of Rule 605 to include the following entities: (1) broker-dealers who introduce or carry 100,000 or more customer accounts; (2) single-dealer platforms; and (3) entities that would operate proposed qualified auctions.

The proposed amendments would include updates to the scope and content of the standardized monthly reports required under Rule 605.

First, the proposed amendments would: (1) expand the definition of “covered order” to include certain orders submitted outside of regular trading hours, certain orders submitted with stop prices, and non-exempt short sale orders; (2) modify the existing order size categories to base them on round lots rather than number of shares and include additional order size categories for fractional share, odd-lot, and larger-sized orders; and (3) create a new order type category for marketable immediate-or-cancel orders and replace three existing categories of non-marketable order types with three new categories of order types (beyond-the-midpoint limit orders, executable non-marketable limit orders, and executable orders with stop prices). The proposed amendments would also scope in non-marketable orders if they become “executable” during regular trading hours.

Second, under the proposed amendments, the content of the reports required under Rule 605 would be amended as follows: (1) Average time to execution, median time to execution, and 99th percentile time to execution statistics, each as measured in increments of a millisecond or finer, would be required in lieu of current time-to-execution reporting categories. (2) Realized spread statistics would be required to be calculated after 15 seconds and one minute. (3) New statistical measures of execution quality would be required, including: average effective over quoted spread (a percentage-based metric that represents how much price improvement an order received), percentage effective and realized spread statistics that would make it easier to compare dollar-based statistics across stocks, a size improvement benchmark that could be used to calculate whether orders received an execution of more than the displayed size at the quote, certain statistical measures that could be used to measure execution quality of non-marketable orders, and additional price improvement statistics for market and marketable orders showing price improvement relative to the best available price in the market, which could be a displayed odd-lot price.

Finally, the proposed amendments would require all entities subject to the rule to make a summary report available that would be formatted in the most recent versions of the XML and PDF formats as published on the Commission’s website.

Additional Information:

The public comment period will remain open until March 31, 2023, or until 60 days after the date of publication of the proposing release in the Federal Register, whichever is later.